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ANNUAL AUDITED REPORT  
FORM X-17A-5 (A)  
PART III

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Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/06

AND ENDING 12/31/06

MM/DD/YYYY

MM/DD/YY

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: CAPITOL ADVISORY CORPORATION

ADDRESS OF PRINCIPLE PLACE OF BUSINESS: (Do not use P.O. Box No.)

1918 JONES BRANCH DRIVE

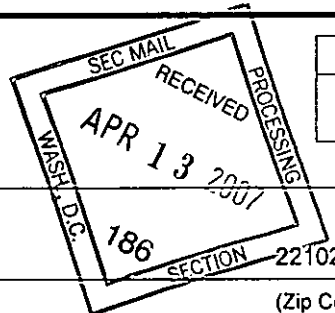
(No. and Street)

MCLEAN

VA

(City)

(State)



(Zip Code)

OFFICIAL USE ONLY

FIRM I.D. NO.

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

JOSEPH A. JIANOS

617-897-8501

(Area Code - Telephone Number)

## B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

LARRY D. LIBERFARB, P.C.

(Name - if individual, state first, last, middle name)

11 VANDERBILT AVENUE, SUITE 220

NORWOOD

MA

02062

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its properties

PROCESSED

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APR 20 2007

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\*Claims for exemption from the requirements that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17-a-8(e)(2)

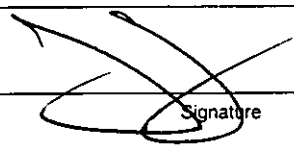
SEC 1410 (05-01) Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.

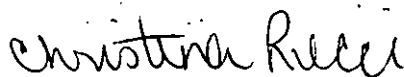
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OATH OR AFFIRMATION

I, JOSEPH A. JIANOS, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of CAPITOL ADVISORY CORPORATION, as of DECEMBER 31, 20 06, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principle officer or director has any proprietary interest in any account classified solely as that of A customer, except as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
  
\_\_\_\_\_  
PRESIDENT  
\_\_\_\_\_  
Title



Notary Public

This report\*\* contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or control requirements Under Rule 15c2-3.
- ☒ (j) A Reconciliation. Including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\* For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**CAPITOL ADVISORY CORPORATION**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2006**

# LARRY D. LIBERFARB, P.C.

CERTIFIED PUBLIC ACCOUNTANTS  
AND FINANCIAL ADVISORS

11 Vanderbilt Avenue, Suite 220, Norwood, Massachusetts 02062  
Tel. (781) 255-8800 Fax (781) 255-9217  
E-Mail: Info@Liberfarb.com


## Independent Auditor's Report

To the Board of Directors of  
Capitol Advisory Corporation

We have audited the accompanying statement of financial condition of Capitol Advisory Corporation as of December 31, 2006, and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Capitol Advisory Corporation as of December 31, 2006, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

  
Norwood, Massachusetts  
January 23, 2007

**CAPITOL ADVISORY CORPORATION**  
**STATEMENT OF FINANCIAL CONDITION**

**DECEMBER 31, 2006**

**ASSETS**

Cash	\$ 11,296
Other assets	<u>2,003</u>
	<u>\$ 13,299</u>

**LIABILITIES AND STOCKHOLDER'S EQUITY**

Liabilities:

Stockholder's equity:

Common stock, \$.01 par value, (100,000 shares authorized, 10,000 issued and outstanding)	\$ 100
Additional paid in capital	122,529
Retained earnings	<u>(109,330)</u>
Total stockholder's equity	<u>13,299</u>
	<u>\$ 13,299</u>

The accompanying notes are an integral part of these financial statements.

**CAPITOL ADVISORY CORPORATION**

**STATEMENT OF INCOME**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

Revenues:	
Commissions	\$ 11,656
Expenses:	
Other expenses	<u>10,864</u>
Income before income taxes	792
Provision for income taxes	<u>-</u>
Net income	<u><u>\$ 792</u></u>

The accompanying notes are an integral part of these financial statements.

**CAPITOL ADVISORY CORPORATION**

**STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Paid In Capital</u>	<u>Earnings</u>	<u>Totals</u>
Balance at January 1, 2006	10,000	\$ 100	\$ 122,529	\$ (110,122)	\$ 12,507
Net income				792	792
Balance at December 31, 2006	<u>10,000</u>	<u>\$ 100</u>	<u>\$ 122,529</u>	<u>\$ (109,330)</u>	<u>\$ 13,299</u>

The accompanying notes are an integral part of these financial statements.

**CAPITOL ADVISORY CORPORATION**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

Cash flows from operating activities:

Net income	\$ 792
Adjustments to reconcile net income to net cash provided by operating activities:	
None	<u>-</u>

Net cash from operating activities 792

Cash flows from investing activities:

None	-
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Cash flows from financing activities:

None	<u>-</u>
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Increase in cash 792

Cash at beginning of the year 10,504

Cash at end of the year \$ 11,296

Supplemental disclosures of cash flow information:

Cash paid during the year for:

Interest	\$ -
Income taxes	\$ -

Disclosure of accounting policy:

For purposes of the statement of cash flows the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

The accompanying notes are an integral part of these financial statements.



**CAPITOL ADVISORY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Business:**

The Company is a Massachusetts corporation, wholly owned by Family Funding, Inc. The Company is a registered broker dealer registered with the Securities and Exchange Commission (SEC), and is a member of the National Association of Securities Dealers, Inc. (NASD).

**Revenue Recognition:**

Customers' securities transactions are recorded on the trade date. Related expenditures are also recorded on the trade date basis.

**Income Taxes:**

The Company uses Statement of Financial Standards No. 109 Accounting for Income Taxes (SFAS No. 109) in reporting deferred income taxes. SFAS No. 109 requires a company to recognize deferred tax liabilities and assets for expected future income tax consequences of events that have been recognized in the Corporation's financial statements. Under this method, deferred tax assets and liabilities are determined based on temporary differences in financial carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which temporary differences are expected to reverse. The differences for the year ended December 31, 2006 is immaterial and therefore deferred taxes are not included in the accompanying financial statements.

The Corporation and its parent company file a consolidated tax return. Consolidated tax expense is allocated using the separate return method. Under this method, taxes are reported in the financial statements for a subsidiary as if it filed a separated return. The differences between taxes calculated using this method and those actually due per the return are classified as additional paid in capital.

**Advertising:**

The Corporation expenses advertising cost as incurred.

**CAPITOL ADVISORY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**DECEMBER 31, 2006**

**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued.**

**Use of Estimates:**

The Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from these estimates.

**NOTE 2 – NET CAPITAL REQUIREMENTS**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital, and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 (and the rule of the “applicable” exchange also provides that equity capital may not be withdrawn or cash dividends be paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2006 the Company had net capital of \$11,296, which was \$6,296 in excess of its required net capital of \$ 5,000. The Company’s net capital ratio was 0 to 1.

**CAPITOL ADVISORY CORPORATION**

**SUPPLEMENTARY SCHEDULES**

**DECEMBER 31, 2006**

# LARRY D. LIBERFARB, P.C.

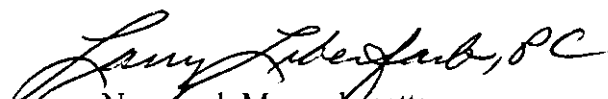
CERTIFIED PUBLIC ACCOUNTANTS  
AND FINANCIAL ADVISORS

11 Vanderbilt Avenue, Suite 220, Norwood, Massachusetts 02062  
Tel. (781) 255-8800 Fax (781) 255-9217  
E-Mail: Info@Liberfarb.com

## **Independent Auditor's Report on Supplementary Information Required by Rule 17a-5 of the Securities and Exchange Commission**

To the Board of Directors of  
Capitol Advisory Corporation

We have audited the accompanying financial statements of Capitol Advisory Corporation as of and for the year ended December 31, 2006, and have issued our report thereon dated January 23, 2007. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, and II is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Norwood, Massachusetts  
January 23, 2007

# SCHEDULE I

## CAPITOL ADVISORY CORPORATION

### COMPUTATION OF AGGREGATE INDEBTEDNESS AND NET CAPITAL PURSUANT TO RULE 15c3-1

DECEMBER 31, 2006

AGGREGATE INDEBTEDNESS:

None \$ -

NET CAPITAL:

Common stock	\$ 100
Additional paid in capital	122,529
Retained earnings	<u>(109,330)</u>
	13,299

ADJUSTMENTS TO NET CAPITAL:

Other assets (2,003)

Net capital, as defined \$ 11,296

NET CAPITAL REQUIREMENT 5,000

NET CAPITAL IN EXCESS OF REQUIREMENT \$ 6,296

RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL 0.00%

Reconciliation with Company's computation of net capital:

Net capital as reported in Company's Part IIA (unaudited)	
Focus Report	\$ 11,296
Net audit adjustments	-
Decrease in non-allowables and haircuts	-
Net capital per above	<u>\$ 11,296</u>

## **SCHEDULE II**

### **CAPITOL ADVISORY CORPORATION**

#### **COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS FOR BROKER-DEALERS UNDER RULE 15c3-3 OF THE SECURITIES EXCHANGE ACT OF 1934**

**DECEMBER 31, 2006**

Capitol Advisory Corporation is exempt from Rule 15c3-3 of the Securities and Exchange Commission since it does not hold customer funds or securities. The conditions for the exception were complied with for the period ending December 31, 2006.

The Company does not carry accounts of, or for, customers and conducts its business in accordance with the following condition and does not engage in any other securities activities.

The Company acts as an introducing broker or dealer, clears all transactions with and for customers on a fully disclosed basis with a clearing broker or dealer, and who promptly transmits all customer funds and securities to the clearing broker or dealer which carries all of the accounts of such customers and maintains and preserves such books and records pertaining thereto pursuant to the requirements of Rules 17a-3 and 17a-4, as are customarily made and kept by a clearing broker or dealer.

# LARRY D. LIBERFARB, P.C.

CERTIFIED PUBLIC ACCOUNTANTS  
AND FINANCIAL ADVISORS

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Tel. (781) 255-8800 Fax (781) 255-9217  
E-Mail: Info@Liberfarb.com

## **Independent Auditor's Report on Internal Control Required by Rule 17a-5**

To the Board of Directors of  
Capitol Advisory Corporation

In planning and performing our audit of the financial statements of Capitol Advisory Corporation (the Company), for the year ended December 31, 2006, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including tests of compliance with such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g). Because the Company does not carry security accounts for customers or perform custodial functions relating to customers securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and the reserve required by rule 15c3-3(e).
2. Making quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by Rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System
4. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by rule 15c3-3

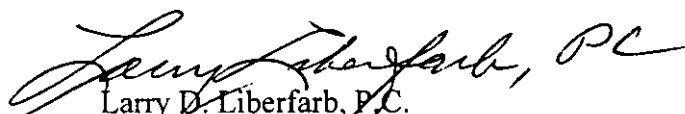
The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from

unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weakness as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe the Company's practices and procedures were adequate at December 31, 2006, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, The National Association of Securities Dealers, Inc., and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

  
Larry D. Liberfarb, P.C.  
Norwood, Massachusetts  
January 23, 2007

**END**